Hindustan Unilever Limited

September Quarter 2021 Earnings Call of

Hindustan Unilever Limited

19th October 2021

Speakers:

Mr. Sanjiv Mehta, Chairman and Managing Director

Mr. Ritesh Tiwari, CFO and Executive Director, Finance and IT

Mr. A Ravishankar, Group Finance Controller and Head of Investor Relations

Operator

Ladies and gentlemen, good day, and welcome to Hindustan Unilever Limited conference call for the results for quarter and half year-ended 30th September 2021. Please note that this conference is being recorded.

I now hand the conference over to Mr. A. Ravi Shankar, Group Controller and Head of Investor Relations. Thank you and over to you sir

A. Ravishankar *Hindustan Unilever Limited*

Thank you, Faizan. Good afternoon, everyone, and welcome to the conference call of Hindustan Unilever Limited. We will be covering this evening the results for the quarter and half year-ended 30th September 2021. On the call from our end is Mr. Sanjiv Mehta, Chairman and Managing Director; and Mr. Ritesh Tiwari, Chief Financial Officer. We hope that you are staying safe and healthy. As is customary, we will start the presentation with Sanjiv sharing the perspective on the market and overview of how we are navigating the current environment. Then Ritesh will share with you the performance for the quarter with the category highlights and the outlook for the future.

Before we get started with the presentation, I would like to draw your attention to the safe harbor statement. With that, over to you, Sanjiv.

Sanjiv Mehta *Hindustan Unilever Limited*

Thank you, Ravi. Good afternoon, everyone, and thank you so much for joining us on the call today. It's always a pleasure to interact with each one of you. I hope that you and your loved ones are safe and keeping well. My greetings to you on the beginning of the festive season.

Let me begin with talking about the market context and the performance in this quarter and touch upon a few actions that we have undertaken to build what we believe is a purpose-led, future-fit Hindustan Unilever. Operating environment improved progressively after the second wave. Infection rates are largely under control, with last 7 days average COVID cases reported in the country staying below 20,000. Thanks to the immense efforts of the government authorities and frontline warriors, our vaccination program has indeed picked up pace. Till date, we have administered close to 1 billion doses, giving at least 1 dose to more than 70% of the adult population. Mobility continues to improve through the quarter and was at more than 85% of pre-COVID level as of the exit of September. The recent employment data from CMIE is also indicating a recovery, with total employment numbers almost back to pre-COVID levels. However, there are still challenges. Despite the pickup in economic activity and macro indicators tracking back to pre-COVID levels, there are some key challenges. As with Nielsen data, FMCG market growths, which picked up after the second wave, saw some moderation in August and September. Rural markets, which have shown good resilience thus far during the pandemic, have slowed in the last couple of months. Urban should hopefully benefit from further improvement in mobility and from a weak base relative to rural.

Next few months will be critical to assess the underlying market demand and determine whether these are transient or structural. We must understand that whenever we look at quarterly growth, it is with reference to the base period. So sometimes it's very important for you to go beyond just 1-year number and look at 2-year numbers. As seen from the recent RBI Consumer confidence survey, the sentiment, while improved versus July '21, still remains subdued as consumers were concerned about the impact of lower household incomes and high inflation.

Prices for many commodities continue to be at multiyear highs. Palm oil prices continue to be at record levels, while crude and packaging feedstocks have also rallied significantly. While tea prices have softened versus the record levels of 2020, prices are still high compared to 2019 level. Further global supply chains are witnessing massive disruption, with shortages of shipping containers, skyrocketing shipping rates, congestion at ports and the recent energy crisis in China.

So, in summary, while the operating environment has improved, it has remained challenging in this quarter.

In this context, we have delivered what we believe is a robust and competitive performance in the quarter, with our domestic consumer business growing at 11%. Our business fundamentals remain strong, and we continue to gain market shares and penetration in more than 75% of our business. The strength of our brands, our execution prowess has enabled us to take price increase in a calibrated manner, leading to a sequential step-up in consumer pricing. We have been able to provide the right price value equation to the consumer, then thus predict our business model in a highly inflationary scenario. This, coupled with a laser sharp focus on savings, by playing all lines of the P&L dynamically, has resulted in a sequential improvement in EBITDA margins by 70 bps, taking our margins to 25%.

We have a clear and compelling strategy, which we spoke about in detail during our investor meet last month. Our 5 strategic choices, underpinned by strong operational excellence and our distinctive hard-to-replicate capabilities, will enable us to drive growth and create a purpose-led, future-fit HUL. Now let me talk about some of the actions we took in this quarter to bring this alive. Over the next few charts, I will take you through some of the work that the world-class R&D and marketing teams have done in this quarter.

Let me start with Beauty & Personal Care. We had a number of innovations and activations in Skin Care and Color Cosmetics category. Pond's has launched its Gold Beauty range for a radiant gold-like glow. It's a daily skin care regime, which includes face wash, serum, day cream, peel-off mask and a night cream.

Pond's has also launched an on-trend vitamin C serum infused with lemon, green papaya and pomegranate extract.

With festival around the corner, Lakmé has introduced limited edition range of lip colors to make the festive season more special. Lakmé also launched Lumi Cream, which is a light moisturizer with a hint of highlighter for a 3D glow.

Vaseline's new lip tins helps you get healthy looking and soft lips. It has specialized formulation for perfect lip care.

Bringing alive its purpose, our brand Glow and Lovely, through its new campaign, showcases that there is no one Miss India. Women in all streams are Miss India's in their own profession. The brand believes that every girl has a glow and to unlock her full potential, Glow and Lovely Careers platform provides free resources to girl to start the story of success.

Let me now move to Hair Care. Sensing the consumers' needs for voluminous hair, TRESemmé has launched its new Thick & Full shampoo and conditioner with biotin and wheat protein to give thicker and fuller look. Expanding its hair mask range, Dove has introduced a new variant with oat milk and honey extracts for stronger and healthy looking hair. Pepsodent was relaunched in this quarter with a new and improved formulation. Its new Germicheck toothpaste has an advanced anti-germ formula with clove and neem oil and a patented CPC technology for its scientifically proven benefits to provide whole mouth protection. New Lifebuoy with Silver Plus formula was launched in this quarter, which provides 100% stronger germ protection against new viruses.

Driving the WiMI spirit, we now have superior product mixes for Lux, depending on consumer preferences. Not only the mixes, but our communications are also tailored for WiMI. Dove's new activation is talking about skin-friendly antiperspirant deodorant and roll-on, which has 0% alcohol and 1/4 moisturizing cream for even and smooth underarms.

Let me now move to Home Care. Our largest laundry brand, Surf Excel, took another step in the journey to win the Clean Future by introducing Surf Excel Matic Liquid with 100% biodegradable actives in the product formulation and 50% recycled plastic and packaging, a great start to reducing the environmental footprint in the product life cycle The product pack and communication change are a slight nudge from Surf Excel to the citizens that their choices make a difference in creating a world we all wish for. The new brand communication film is centered around the idea of taking control of our future in small ways we can. Rin is extending its Clean Future Journey by introducing a new Rin bar, a superior, cleaner product which is 100% phosphate-free.To address the need for superior toilet hygiene, Domex has launched a new evidence-based campaign, demonstrating the superior benefits of Domex Fresh Guard disinfectant toiler cleaner. The improved formula of the product reduces water, stain and germ buildup, thereby troubleshooting persistent problems such as cleanliness, hygiene and malodour. Vim, our dish-wash cleaning brand, aims to break gender stereotypes in its new campaign and encourages girls to get ahead of dishwashing.

Next one is a heartwarming film from Sunlight. Weavers' livelihood in Bengal have been impacted due to COVID-19 and dwindling demand. Through its purpose, Live Life with Color, Sunlight has embarked on a journey to add colors to the lines of hand loom weavers, the talented men and women who have kept our rich cultural heritage alive for generations. The new brand campaign, Sunlight Tantir Rong, is a unique initiative to connect weavers with famous contemporary designers. Comfort has come up with a new contextual communication to prevent malodour from clothes during the monsoon season.

Now let me move to F&R. India is home to more than 70 million diabetics, second highest in the world. Careful dietary management is a necessary part of living with diabetes and a high-fiber diet is scientifically proven to help. Horlicks has launched Diabetes Plus, which fulfills 26% of daily fiber requirement, which helps in managing blood sugar, reduce cholesterol and supports weight management. Kissan expanded its peanut butter range by adding the crunchy variant. This has now become a part of my daily breakfast, and I would urge you to use it. It's absolutely brilliant product. It is made out of 100% real peanuts and is an excellent source of protein.Offering 3 delicacies to consumers during this Durga puja, the biggest festival in West Bengal, Kwality Wall's is dialing up its new campaign across pandals and on digital media. "Pujo Mane Mishti, Pujo Mane Kwality Wall's".

Boost, the rich legacy of inspiring kids and giving them the right motivation and stamina to overcome challenges, even when the odds are against them. In this new campaign, it aims to break stereotypes around girls and sports. With grit, perseverance and stamina, the brand hopes to inspire the next generation of athletes. Building on its credentials of providing restaurant-like food at home, Knorr has activated a new communication for its Chinese sauce and gravy mix.

Bringing alive its purpose, Brooke Bond 3 Roses in its latest ad film showcases how a mother-in-law's doubt turns into support for her daughter-in-law over the perfect cup of tea. The campaign associates with 3 iconic attributes of color, taste and strength of 3 roses to the versatility of the modern Indian woman just as she perfectly manages work, family and motherhood.

Let me now talk about nutrition. In the past, we have spoken about the nutrition deficiency in India, the low penetration levels in health food drinks category. So very clearly, the job here is to increase penetration and develop the market. We are doing this through persuasive communication, consumer connects and driving physical reach.

Our new food equivalence communication in Horlicks is focused on explaining the goodness that is filled in a cup of Horlicks. I spoke about the Boost campaign in the breaking stereotypes. Consumer connects at scale is a critical leg of our market development strategy. In this quarter, we did more than 5 million consumer connects. We are doing this in low-penetration geographies, where the promoters visit home and educate the consumers about the category and build its relevance through our brand to increase penetration.

Along with the mental reach, driving physical reach is a key component of our strategy. Last quarter, we spoke about our go-to-market integration plans. I'm very happy to tell you that we have been progressing well and till date, we have integrated more than 85% of our business, up from 50% as of June end.

As we integrate our distribution systems, we're also increasing our effective coverage, which is now at 1.9x of pre-GTM integration level. All this has helped us in increasing penetration sequentially and deliver double-digit volume growth in our Health Food Drinks business.

Let me now talk about the Premium Beauty Business Unit. I'm really happy to tell you that this unit, our incubator set-up within the HUL ecosystem, is doing well and scaling up its digital presence. With its focus on building digital-first beauty brands and reflecting its agility, the business has expanded its range to cover Simple, Love Beauty and Planet and Baby Dove. Driving on-trend innovation, Simple had launched 3 booster serums. And Love Beauty and Planet has launched Sulfate-free hair care range, with onion and apple cider vinegar. Dialing up our innovation intensity in this space, we have charted an aggressive plan to launch new and on-trend innovations.

PBBU, what we call as the Premium Beauty Business Unit, is not just about building brands, but this is also about incubating capabilities. Some of these are having an agile innovation model to pick up trends on the fly, launch the product in minimal time, scaling it up as it succeeds, building supply chain for small like nano-factory setups and flexible supply chain to provide agility. Performance marketing, D2C and e-comm capabilities required to target top 50 million consumers who are digital natives.

Elaborating on our digital presence, we now have dedicated D2C platforms for 4 of our beauty brands, Lakmé, Simple, Love Beauty and Planet and Dermalogica. Just to expand on this further, Lakmé, our iconic beauty brand, has the highest followership on Instagram across all beauty brands in India. The D2C platform of Lakmé gets more than 2 million visitors per month. And together with e-commerce, it contributes to more than 30% of the brand turnover.

Now talking about channels, COVID-19 has, of course, given a big lift to e-commerce, and we believe these habits will continue to stick with consumers as they get used to the convenience and assortment available online. Modern trade stores, which were impacted due to closure of malls, have come back strongly in the quarter as the country opened. And rightly so, as in a country, shopping is considered an outing and an experience.

General trade continued its resilient performance. As far as we are concerned, our job is to create triple-win, win for the consumers, win with the customers and win in HUL. We are doing this by ensuring dedicated capabilities and driving everyday great execution. We already have exclusive channel-wide structures across our organization. Both in the case of modern trade and e-comm, we created structures well ahead of time, giving us a significant competitive edge. Further, we are continuously curating our portfolio and marketing content to make it fit for the channel. For example, in general trade, we are launching more access packs and sachets to drive accessibility of our products. While in modern trade, we are bringing large packs, multi-packs which provides the right pack price architecture. In e-comm, we are continuously enhancing our portfolio to newer formats and benefit, ensuring better value density. This, together with our capabilities across content, search and performance marketing, has helped us significantly dial up growth and create a competitive advantage for us.

Talking about execution excellence. We have improved our effective coverage and assortment, not only versus JQ'21, which was a COVID-impacted quarter, but also we are now better than pre-COVID levels. We are building brands in modern trade stores and driving experiential marketing. In e-comm, our brands have best-in-class discoverability across platforms driven by excellent execution.

Let me now talk about demand capture. You will recall that in the last quarter, we spoke about digitized demand capture across our future-ready platform like eB2B app Shikhar, e-commerce and D2C, which was more than 10% of our business. I'm so pleased to inform you, this is further being scaled up, and now more than 15% of our demand is captured digitally. This also gives us a unique capability to run our demand generation activities in a disruptive manner. Our eB2B app, Shikhar, is a real game changer for us. It is about building next-gen, future-proof distribution model to serve our retailers.

With Shikhar, the promise of classical Hindustan Unilever customer-centric salesman is now available online in an app. What's more, it is available 24/7 and comes with credit option. It is indeed our digital-first approach in which kirana salesmen and distributors are well integrated. I'm very happy to inform you that Shikhar is now available in more than 650,000 stores and this adoption and stickiness only continues to grow.

Talking about e-comm, we are accelerating growth in this channel by building future-fit portfolio, marketing capabilities and by driving everyday great execution. In the D2C space, our multi-brand platform, U Shop, continues to gain more traction from the consumer. We've started U Shop in Mumbai and Delhi and will be expanding further soon. As I spoke earlier, we have further added our D2C platforms for our premium brand Simple, Love Beauty and Planet and Dermalogica, in addition to the existing one for Lakmé and Indulekha to provide unique shopping experience to our consumers.

ICnow is another initiative, where we have tied up with last-mile delivery partners like Swiggy, Zomato, to provide home delivery of ice creams and is doing extremely well. Now let me talk about purpose, which we believe certainly drives growth. At HUL, we have long held the belief that being a responsible, sustainable business makes us a stronger and better business. In fact, we believe it's our only way of doing business. To this effect, in the quarter, we made some good progress on our sustainability initiatives.

Let me talk about a few examples. We have eliminated CO2 emissions from thermal energy in operations by replacing coal with green alternatives such as biomass and biodiesel. The impact of this transition, not only increases our green footprint, but also improves the quality of air around our factory and enhances the income of farmers. Through a vision for a clean future, we are committed to transitioning away from fossil fuel-derived chemicals in our cleaning and laundry products by 2030. Carbon Rainbow inspires us to use plant-based surfactants, green carbon and laundry powders and liquids in place of black carbon. We have partnered with Tuticorin Alkali Chemicals and Carbon Clean Solutions for soda ash using carbon capture technology. They have developed cutting-edge technologies to capture the CO2 from production processes and turn it into soda ash. This will reduce air pollution as well as the GST footprint of the raw materials used in manufacturing of a laundry detergent. Our brands have a big role to play in achieving our ambition on reducing, reusing and recycle plastic. Recently, our laundry brand, Surf, introduced Surf Excel Matic Liquid using 100% biodegradable actives in its formulation with 50% recycled plastic in packaging. Another example is our smart-fill machine, an in-store vending model for our home care products. In the pilot phase, the machine has been installed at a mall in Mumbai. The initiative offers consumers an innovative option to reduce plastic bottles by refilling our home care products like Surf Excel, Comfort and Vim through the smart-fill machine. Drawing learnings from the pilot, we intend to scale this up in future. We launched our sixth Suvidha Center at Ghatkopar in Mumbai in partnership with the BMC and HSBC. The unique Suvidha model has helped provide good quality sanitation services to over 100,000 urban low-income households in Mumbai. Additionally, the new center will be one of the first of its kind to treat and reuse both gray water and black water through which 10 million liters of water will be saved per year. COVID-19 vaccine efficacy is one of the questions on most people's minds today. To understand the vaccine immunogenicity and obtain deeper insights into whether factors like nutritional deficiencies or the skin's natural immunity plays a role in the immune response, HUL is funding a study and will provide additional analytical data support to the center via R&D scientists.

This research is being enabled by the Office of the Principal Scientific Adviser to the Government of India's Program to stimulate collaboration between industry and academia. It has been carried out by the platform VISION, which is the Vaccine Immunology Studies Indian Outbreak Response Network, which includes top public and private research institutes across India.

Today, I've taken a bit more time to give you a perspective of the innovations, activations, communications and our digital journey. With this, let me now hand over to Ritesh as we provide some deeper insight into this quarter's performance

Ritesh Tiwari ***Hindustan Unilever Limited***

Thank you, Sanjiv. Good afternoon, everyone. I will now talk you through our September quarter performance, summarize our first half numbers and give you a sense of future outlook as we're seeing it.

As Sanjiv said, our September quarter performance has been robust in a challenging environment. Domestic consumer business grew 11% in the quarter, with an underlying volume growth of 4%. This has been a strong competitive performance, with more than 75% of our business gaining market share and relative penetration.

On volume, let me just put that also in context of the shifting base and our recent previous quarter performance. June quarter '20, last year, our volumes had declined by 8%. On back of that, in June quarter '21, we increased our volume by 9%. Coming to September quarter, September quarter '20, last year, our volumes had grown 1%. On back of that, now in September quarter '21, our volumes are up 4%. So sequentially, the way we see, compared to June quarter, we have further accelerated our volume delivery. Talking about further on growth. Growth has been broad-based across all the 3 divisions. From a portfolio lens, health, hygiene and nutrition, which is 85% of the business, continued to witness strong growth. Discretionary and out-of-home saw acceleration in momentum with improving mobility. I will speak about this in more detail as we get into category slides. EBITDA margins came in at a very healthy 25%. In the backdrop of a very high input cost inflation, we are pleased to deliver margins at the upper end of the 24%-25% range that we had indicated earlier. Our focus on taking calibrated price increases, using net revenue management principles, coupled with a laser-sharp focus on savings, has helped improve profitability while stepping up our A&P investments behind brands.

On a year-on-year basis, EBITDA margins declined 40 bps. Profit after tax, but before exceptional items, was up 7%. Our net profit at INR 2,187 crores increased 9% versus September quarter '20. The gap between PAT (BEI) and net profit is explained by lower restructuring and acquisition disposal related expenses in this quarter. There was also a INR 29 crore benefit from sale of Dalda brand rights in the rest of the geographies outside India. Let me now give you a flavor of growth across the 3 divisions. Home Care sustained its double-digit growth momentum, growing at 15%. Beauty & Personal Care grew 10%, led by Skin Care, Color Cosmetics and Hair Care. Foods & Refreshment delivered a strong growth of 7% on back of high-teens growth in the base.

Let me now click down and talk about performance within each of the divisions, starting with Home Care.

Home Care had another strong quarter of double-digit growth. Household Care continued to perform well, led by Vim. Vim grew high single digits on a strong base in SQ'20, which was in high teens. Domex had a muted quarter on back of an exceptionally high base. The good news is that it continues to deliver a significant step-up to pre-COVID run rates. Fabric Wash had a high teens growth albeit on a soft base. Our premium portfolio continued to do well in this quarter. Liquids and fabric sensation outperformed with growth in high double digit.

On a 3-month basis, we gained shares handsomely in both laundry and dish-wash categories.

Calibrated price increases were taken across Fabric Wash and Household Care portfolio to partly offset the high input cost inflation. Purifiers recovered well and grew double digit, led by an acceleration in e-commerce. Sales is now ahead of pre-COVID levels. Moving on to Beauty & Personal Care. Soaps had a stable performance, growing on a very high base that we had in September quarter '20. Premium portfolio soaps comprising of Dove and Pears continued to perform well and grew sequentially.

WiMI strategy in LUX' has started yielding results, and we saw a strong performance in this quarter. Lifebuoy continued to cement its market leadership. Hand hygiene portfolio, comprising sanitizers and hand wash, declined versus 2020, while continuing to remain higher than pre-COVID levels. Palm oil continues to be at record levels and witnessed further step up in this quarter. These are multiyear highs, and we continue to take pricing in a calibrated manner to protect our business model while maintaining competitiveness of our brands.

Hair Care had another very strong quarter as we continue to gain market shares. Our innovations and communications are finding relevance with the consumer and leading good results. Here again, our premium brands performed exceptionally well.

Skin care recovered strongly as mobility improved. Winter sell-in, whilst below long-term normative levels, is better than what we saw in 2020. Glow & Lovely delivered a steady performance, gaining market shares and continue to grow penetration. Color Cosmetics also had a strong quarter with improvement in mobility, albeit slightly lower than pre-COVID levels.

We are also very pleased with the expanding digital presence of Lakmé brand. Not only is Lakmé India's most followed beauty brand on Instagram, we have monthly 2 million visitors on our D2C website, and 30% of Lakmé sales happen through digital channels. Closeup continued to do well in oral care. During the quarter, we relaunched Pepsodent with a superior formulation.

Let me now talk about Foods & Refreshment division. Our tea business had a stellar performance over the years and more so recently despite the significant inflation headwinds that the category saw. This outperformance continued into this quarter. We have further extended our market leadership, both in volume and value terms. We also saw Tea inflation moderate in this quarter with raw tea prices falling below 2020 levels, albeit being more than 20% higher compared to 2019. We continue to watch this space and will take necessary steps across all 6Ps to ensure the right price value equation is provided to our consumers and to maintain our competitiveness. Coffee had a steady quarter, with mid-single-digit growth.

Coming to Nutrition, Sanjiv spoke about the acceleration in market development activities in this quarter. These are yielding results as we saw health food drinks get back to double-digit volume growth in this quarter. Penetration also improved sequentially. This volume growth has been driven by sachets and access pack, thus giving us further confidence in our strategy in this category. The Rs. 2 sachet has been doing well. We have launched this as a pressure test in Andhra Pradesh and Telangana in March this year. And with encouraging signals, we have extended further to Karnataka and Tamil Nadu in the last few months. This is market development at scale, which we have invested in for a longer time horizon. With a new food-equivalence concept in our communications and then to extent of market development, we believe that this penetration gains will continue to accrue over medium to long term.

While Sanjiv covered it earlier, a quick reminder that we have now completed more than 85% of our go-to-market integration, up from 50% level we had at the end of previous quarter.

Let me again reiterate the long-term plan we have on nutrition which we spoke about in detail in the annual investor meet. In summary, our cost synergies realization in year 1 is already ahead of what we had planned in year 3 in the business case. Our main job to be done in this category is driving penetration, and we're investing part of the synergies into key interventions like sachets, access pack and market development actions. Therefore, in short term, we will see volume growth running ahead of sales growth, but without diluting margins in comparison to pre-acquisition numbers.

As we speak, our cash generation in the last 1.5 years is ahead of the business case assumptions.

So let me move on to Foods. Foods had a soft quarter. We had a strong prior year comparator with SQ'20 growing in double digits due to tailwinds that in-home categories saw at that point in time. Ketchup continues to do well, gaining shares handsomely. Jams recovered versus 2020, however, it is still not back to pre-COVID levels with schools still not fully open. Our innovations, Kissan Peanut Butter and Hellmann's Mayonnaise continues to gain more traction. We have launched a crunchy variant of peanut butter in this quarter.

Ice creams had a fantastic quarter with a very strong recovery backed by strong innovations and effective communication. Sales in this quarter was significantly better than same period 2019 and, in fact, sequentially higher than June quarter '21 as well. 'ICNow' our partnership with last-mile delivery partners to provide home delivery of ice cream, is doing very well. As we have been doing for the past few quarters, let me now give you a snapshot of our performance on a portfolio lens. Given the noise in the base number, we have also given you 2-year growth numbers alongside. From a 2-year lens, all the 3 portfolios have accelerated versus June quarter '21. Health, hygiene and nutrition, which is 85% of the portfolio continues to grow at a healthy pace. Discretionary portfolio has recovered well with improvement in mobility and is almost back to pre-COVID levels. Out-of-home, which is majorly ice creams, has rebounded strongly and is ahead of pre-COVID levels.

Now this is an important slide. You heard about inflationary context from Sanjiv, let me quickly recap some of the key messages. We've continued to see unprecedented levels of inflation in some of our key input materials. Palm oil and its derivatives, which are used in our skin cleansing and hair care categories, have seen prices climbing further. Please be mindful that these were already at historical high. With the palm season in full swing and having visibility of stock levels, our expectation is for the global prices to remain supportive in near term.

Crude and its derivatives are key inputs for our laundry and household care category. As you know, Brent crude has gone beyond $80 and has been holding firm. Packaging materials, both plastics, which are derived from crude, and also paper and board, continue to be at very high levels, inflating 40% to 50 % over the course of past 12 months.

Freight rate, especially ocean freight, has increased multifold over the past few months. A combination of factors like increasing demand, continued imbalances and shortage, port congestions and COVID restrictions have seen freight rates to unprecedented levels. As I had mentioned, we do see softening in tea prices on a year-on-year basis, but it continue to be elevated versus 2019.

Besides all this, I'm sure you've been following the news of global supply chain disruption. Some of the key nodes in global supply chain has been hit by a combination of factors, including COVID. Coming at a time when global economies are further opening up and there is an improvement in demand, this has caused a fair bit of heating up across value chains.

From our perspective, the good news is that we don't expect to see any service issues as we are placed well, with enough flexibility and resilience in our raw material sourcing. We also benefit from our global procurement relationships and scale. However, we do expect to see some transitory impact in the cost of materials as a result of these disruptions.

So all in all, we do expect margins to be under pressure in the near term. The way we will manage this is exactly how we have done in the past few quarters. We will continue to play all lines of the P&L, ensuring competitiveness of our brand and keeping EBITDA margin in a healthy range.

If we talk about the current quarter, we continue to price up in the categories we are seeing input cost inflation using net revenue management principles or the science of pricing as we call it. With the inherent strength of our brands, we have been able to lead pricing. Our savings program continued to be robust, generating crucial fuel for growth by taking out costs that do not add value to consumers. As you know, we have developed strong reflex muscle in this space.

We spoke about mix being a tailwind as discretionary categories start rebounding. All of our drivers have helped us improve EBITDA margins sequentially with 70 bps and bring it to the high end of 24%- 25% range we had indicated. At the same time, we have also stepped up media investment behind our brand and have ensured a very healthy share of voice to share of market ratio.

Now from the segment lens, all 3 segments have performed well. Our margins in all 3 segments are healthy, and we have stepped up gross margins sequentially.

In summary, our performance has been strong, both on top line and bottom line. I have already covered most of the lines in detail. Let me pick up a couple of more things to elaborate. The first is drop in other income, which is on account of lower treasury yield and one-off credit in base from interest on tax prior period adjustment.

The second is on effective tax rate. Our ETR for the quarter was 26%. Including the prior-period adjustment we received in JQ'21, we expect our full year ETR to be around 25%.

This slide gives you a quick snapshot of the first half performance. Our reported turnover grew 12% to INR 24,246 crores with a broad-based growth across all 3 divisions. EBITDA margins at 25% remained very healthy. Net profit for H1 was at INR 4,240 crores, growing 9% year-on-year.

Taking into account the strong performance of the company, I'm pleased to inform you that the Board of Directors have recommended an interim dividend of Rs. 15 per share for the year-ended March 31, 2022, which is a step up of Re. 1 as compared to the interim dividend of financial year '21.

Coming to the last chart for the day. Looking forward, we remain cautiously optimistic. With the rapid pace of vaccination in the recent past, we are hopeful that as a nation, we can avoid further disruption from the spread of the virus.

The next few months will be key to get a better understanding of the underlying demand. There are a few variables here. First, being the normalization of economic activities. Second, the onset and intensity of winter. And finally, impact of inflation on consumer demand.

Further, the inflationary conditions that I spoke about earlier are expected to persist in the near term. These commodities affect large parts of our business and, hence, gross margins are likely to remain under pressure. We remain confident of navigating this environment and delivering on our 4G growth agenda that is consistent, competitive, profitable and responsible growth.

Over the course of the past 12 to 18 months, we have once again demonstrated our ability and resilience to navigate such volatile and uncertain conditions, and we remain confident of doing that going forward, too.

With this, we complete our prepared remarks, and let me now hand over to Ravi to commence our Q&A session.

A. Ravishankar ***Hindustan Unilever Limited***

Thank you, Sanjiv. Thank you, Ritesh. With this, we will now move on to the Q&A session. I would like to hand over the call back to Faizan to manage the Q&A session for us. Faizan, over to you, please.

QUESTIONS AND ANSWERS

Operator
The first question is from the line of Abneesh Roy from Edelweiss.

Abneesh Roy ***Edelweiss Securities Limited***

My first question is on the rural growth. So Nielsen is saying that rural FMCG market growth is almost 1/3 of urban in August plus September. I wanted to understand, for you, in Q2, how rural versus urban interplay has been. And how do you see the outlook? I understand cautiously optimistic, but that doesn't give the full picture.

Sanjiv Mehta Hindustan Unilever Limited

Abneesh, just to give you a perspective that our rural performance in September has been pretty robust and decent. But then we look at the market, and from a market perspective, the Nielsen numbers which have come out, which has been very resilient during this entire pandemic, have indeed slowed down in the last couple of months. And urban growth, which used to be muted, is picking up. And we hope that it will pick up even more with the improvement in mobility. And that is the reason we say that we need to monitor the situation closely for the next few months to see how the underlying demand is shaping up. That's where we are as far as rural is concerned. And that's where we are as far the demand is concerned.

Abneesh Roy ***Edelweiss Securities Limited***
Right. Sanjiv, that was helpful. My follow-on question on the volume growth is that you must have seen good inflationary growth in skin cleansing and tea. If you could comment on the volume growth in cleansing book plus hand hygiene. And similarly, tea, I understand in Tamil Nadu, because of ration shops offering tea, there was an impact. Plus the prices have been volatile. So the industry took a lot of price hike, and then there has been some correction. So if you could comment on volume numbers for skin cleansing and tea

Sanjiv Mehta Hindustan Unilever Limited
The way I would look at it is from a portfolio lens, on a total portfolio. That's our strength as a business. I think when you're looking at the volume growth and in the June quarter, we had a 9% volume growth as a total portfolio. But that was against the base, which was-8%. Whereas if you look at the September quarter, we have 4%. So the headline looks like it has come down from 9% to 4%, but the base in September quarter was 1%. So if you look at, sequentially, over a 2-year period, we are definitely looking at an improvement that has happened on volume growth, and that is what we need to focus on.

We also need to understand, Abneesh, that over a long-term period, if you look at it, our volume growth has been about 70% of our growth. That's on an average basis. But in a period where the price is higher, then the volume comes down. And when the price is lower, then the volume goes up.

And we also have to understand the interplay between the unit price packs and the volume growth. When you look at that the price increase happens in 2 ways. One is when you take MRP up, the other is when you reduce the quantity of products in a pack. When it comes to price point packs, the price increase happens when you reduce the quantity of product in a pack while protecting the price point. While you protect the price point, because of the reduction in quantity, this has an impact on your volume growth coming down, even though the number of units may remain same.

So I think what you need to look at is, when there is a hyperinflation that, first, are we competitive? Second, are we able to protect the business model? And when you look at it, competitiveness, we look at it, one is the competitiveness versus other players in the market. And the other is we look at the fundamental metric of penetration.

So for us, keeping the consumer franchise intact and protecting the business model when the environment is volatile is very critical. And I'm very pleased to tell you that we are playing the game very well

Abneesh Roy *Edelweiss Securities Limited*

Sure. Sanjiv, that was quite helpful. One last follow-up on the volume growth. So you have gained in 75% of the portfolio market shares/ penetration, if I remember this correctly, this number used to be around 85%, 2 quarters back. If you could elaborate what has gained, where are you, I think, gaining.

Sanjiv Mehta Hindustan Unilever Limited

Again, if we look at it globally, the index that we will look at, that if you are getting 60% of your business gaining market shares, you are in a very good position. Because many times what happens is it is a relative situation. You might have gained a huge amount of market share in the base period and a small moderation would show that you have not gained market shares during the current period. But then you need to look at it, how is your trend shaping up?

When we look at penetration, when we look at moderation and when we look at our corporate value shares, we are in a very good position.

Abneesh Roy *Edelweiss Securities Limited*

So my second and last question is on HFD. So INR 2 sachet has been now taken to almost all the south market. When do you see rest of the country also seeing the INR 2 sachet. And would you say that now double-digit volume growth is quite a reasonable expectation?

Sanjiv Mehta Hindustan Unilever Limited

It is like this. We are playing a game for the long term. And when you look at the growth paradigm or the delta growth paradigm, its hinged on a few critical things. One was innovation, which we are very pleased with. You would have seen the entire plus range come into the market.

The second one was communication. You have seen how communication, we are taking it up to a new level altogether. The third was distribution. Distribution, we are now pleased that the integration has happened up to 85%, but this would have been much faster had there been no COVID. But now we are getting into a rhythm and you will see the increase in distribution happening.

And the last very critical leg in market development. Market development, house to house, which is experiential market development, did slow down during the COVID period and we were not able to visit homes. It is only now that it has picked up, and we have reached 5 million households. But our plans are much bigger. And that, together with the access packs, we believe, will lay the ground for sustainable growth.

Whether it happens on a sustained basis in a quarter or in another quarter or 2 quarters, but certainly medium to long term, we will get into fabulous growth as far as this business is concerned. I'm very confident about it. But if you look at it from a lens which was a controllable factor for us, Abneesh, were the cost savings. And cost savings are running ahead of the business case.

Operator

The next question is from the line Aditya Soman from Goldman Sachs.

Aditya Soman *Goldman Sachs Group, Inc.*

A couple of questions from my end. Firstly, in terms of, do you think seeing some of these businesses, particularly in cosmetics, coming up or raising funds, do you see them as an opportunity to expand the market in a sense that we are getting access to the online market and consumers [are therefore], not serviced? Or do you see them potentially as competition down the line, especially as they launch their own private label, often at more competitive price point? So that was one.

And second, in terms of the broader context on the rural, are you seeing any regional differences on rural? Or do you think it's just a broader slowdown in the market in rural in the last couple of months?

Ritesh Tiwari *Hindustan Unilever Limited*

Sanjiv, I'll take the first one. You can pick up the second one. So on cosmetics, Aditya, as you mentioned, overall discretionary categories, it has taken a beating in COVID period, where mobility got impacted and, hence, consumption occasions also got impacted. The good news is we are almost back to 2019 in almost all discretionary categories. On colour cosmetic, in particular, we are just about at 2019 levels. So business has recovered with mobility coming back. And we do expect that with some standard work which government has done on vaccination, we should be able to see more amount of mobility improving that should further augur well for Color Cosmetics business.

Now coming to the conversation which you spoke about, on and offline, absolutely, that's a play. For us, Lakmé, our flagship brand, which drives Color Cosmetics, it's a brand which has the highest amount of Instagram followers amongst all the beauty brands in the country. It's a brand which is available online. It's a brand which is also available offline. Today, 30% of sales of Lakmé comes online. So we are very clear, wherever consumers find safer and convenient to go to shop, we will be there, be it the beauty counters in a mall when things are opening up and life's looking more healthier and comfortable for people to visit or, for that matter, on an online experience of shopping our portfolio and then getting benefit from the range that we offer. So we will have our play across modern trade, general trade and online as required to drive sales of the business. On other question, Sanjiv.

Sanjiv Mehta Hindustan Unilever Limited

Yes. You spoke about rural. The number that we gave was the Nielsen market growth number, and that is obviously for the country as at-large. But within the country, the biggest market, rural market in the Hindi heartland, which is UP, Bihar, Madhya Pradesh, Chandigarh, Rajasthan, and that is what moves the needle. So while we must accept that India is not a homogenous entity, so one can never say, and that is the reason we have the winning in many India strategy because we play a different strategy in different parts of the country.

So at this stage, I will say there are indicators because of a high base, but whether it is something which is a transient nature or whether it is something which will translate into a concern, I think let us see for few a more months as to how it really pans out.

Aditya Soman *Goldman Sachs Group, Inc.*

Absolutely. I think my questions on both, firstly, on the Color Cosmetics was, is there any indication that we've gained or lost share, given that we are maybe flattish on a 2-year basis? But if you look at and sort of prospectuses by these firms, there seems to be quite a lot of growth in the category.

And secondly, on rural, like, the question was more of, if the Hindi heartland is what Nielsen data suggesting a slowdown to the market, then is it just a function of consumers getting back to the cities after a prolonged period? Or is there anything more to read? Maybe then we can take a call later.

Sanjiv Mehta *Hindustan Unilever Limited*

See, on face, we have gained shares very handsomely in the period under review. It's been a wonderful journey. In most of our big categories, we have gained very impressive shares. But you have to look at it from face and skin care from a very different lens.

I think if you look at all the big markets in the world, India would be a place where HUL has perhaps the highest relative market share as compared to any other big market, not just for Unilever, for any of the big players. So our right to win is perhaps the highest as far as the skin care and face care is concerned than anywhere else.

And as the country develops, this would be one of the fastest-growing categories, is our belief and we are very well poised. It's not just from our mainstream brands, but we are also very confident that the digital-first brands that we are building is going to help us tremendously. That, together with the digital capabilities that we are building across our business. Our nano-factories, for instance, that gives us massive flexibility, or the innovation hub that we have created, the AI hub, which gives us a huge amount of insight and has significantly crashed the time to innovation. All this, we are looking at it from a lens that it should place us very well to gain growth and shares in the years to come.

Operator
The next question is from the line of Avi Mehta from Macquarie.

Avi Mehta *Macquarie*
Just had one question. Now this quarter we have reached the upper range of the 24% to 25% EBITDA margin. With mix steadily improving as beauty comes back, would you look to revisit this as the mix improvement partly alleviates the input cost pressures and we've been kind of taking calibrated price hikes? I would love to have your comments on this.

Sanjiv Mehta Hindustan Unilever Limited

Well, that's a very good question. And certainly, we are seeing the discretionary categories pick up. And within the discretionary, face is a big thing. And like I was saying, if you compare the September quarter. In September quarter '20 versus '19, we were at 63% of '19. Whereas in SQ '21, we are 103% of SQ'19. So it has definitely picked up and it's a very attractive category for us. So there would be a tailwind as far as the mix on discretionary is concerned.

But at this stage, we don't want to commit to a band beyond what we had indicated because of the inflation on the total portfolio, but there will be some pluses, some minuses. But the important bit is our ability to navigate through the turbulence, and there, we remain pretty confident.

Avi Mehta *Macquarie*
Okay. And Sanjiv, just one bit on the industry side. I just want to know if you are seeing any signs of

down trading. Or is that something that is causing you concern? Or is it just a sense that rural growth rates have not necessarily picked up? Is that what you're kind of concerned about? Is my reading of that situation correct?

Sanjiv Mehta Hindustan Unilever Limited

Let me give you a picture that if we look at some of our brands which are premium brands, like Dove, TRESemmé, Pears for instance, they're all doing very well. But this is also because it is many Indias. There are many consumers who go in for premium. Take our Surf Excel brand, it has been roaring, whether you look at it from a growth lens or you look at it from a market share lens. We have perhaps the highest ever market share we have had in laundry. And so India is many Indias. When you come to the top end who are relatively less sensitive to price change, the premiumization journey continues. But on the other hand, people who are at the BOP, yes, they would obviously be looking at titrating the volume, not necessarily down trading, when it comes to price increase. So at this stage, we are not seeing a significant down trading happening.

Operator

The next question is from the line of Arnab Mitra from Credit Suisse

Arnab Mitra *Crédit Suisse*

On the volume growth of 4% this quarter, so this obviously comes on a base when you had a very weak personal care business last year September quarter and even laundry had a very soft September quarter. So as we go into second half, which was pretty normal last year, including the winter being pretty good, are there not more, like, risks on the downside to the volume growth? Or are there other parts of the equation which you think can offset this base effect, which is quite large, as you go ahead into the second half?

Sanjiv Mehta Hindustan Unilever Limited

Yes. Different things are at play, because it's not a very normal linear function, which normally happens, say, the next set of seasonal trend. If you look at it at the beginning of the pandemic, categories like laundry took a beating because people were not stepping out and the number of washes have come down. And in categories like skin cleansing, especially hand wash and sanitizers, were going through like a bullet train.

Now what we are seeing is hand sanitizers and even liquid hand wash are moderating. And categories like laundry picked up, and they are still running at a pretty good pace. But what is very important for us is discretionary is now picking up.

So this is not a very comparable scenario right now. And that's the reason I say is that the bases are distorted. One will have to then see that how we play the portfolio, which I'm pretty confident of navigating, and that's sometimes a big benefit of having a wide portfolio, because somewhere you do well, somewhere you don't do well. But on a total basis, you keep performing reasonably well.

And that is what we need to see. And the important bit we still say is, guys, don't get taken in by headline numbers. Wait to see how the underlying demand shapes up. Because what are we talking about, as a country, by end of the year, we will get back to 2019 GDP. That's what we are all hoping and seeing.

Then the critical bit will be once the base has been corrected, how does the country grow and that will have a very clear impact on our categories. And if you were to ask me, am I bullish about next year? I am. Yes, I am bullish about next year. There are, of course, headwinds of inflation, which we will have to navigate. But as a country, I think we should be doing well.

Arnab Mitra Crédit Suisse
Right. And just on that point, is there a threshold of volume growth that is acceptable to you in the sense that you have pricing power and you are putting in more pricing.

Sanjiv Mehta Hindustan Unilever Limited

That's a good question. When environment is normal, you focus on volume growth to ensure that your consumers don't leave you. When the environment becomes extraordinary, you don't focus on volume growth as much as you look at the shares, that you don't want to lose the consumer franchise. So you look at the consumer franchise, you look at the penetration of your products in the household, and you look to protect the business model. That's what we do.

Operator
The next question is from the line of Percy Panthaki from IIFL Securities.

Percy Panthaki *IIFL*
I have 2 questions, 1 on Shikhar and 1 on the demand scenario. So let me go ahead with Shikhar first. So I just wanted to understand from your point of view, from HUL's point of view, what are the benefits that Shikhar confers on you? And are they measurable in any way? So would you say that the benefit is in, somehow, increasing the revenue? Or is it mainly in terms of reducing the cost? Or is it a combination of both? So some idea on this, please.

Sanjiv Mehta Hindustan Unilever Limited

Yes. Thank you, Percy. Shikhar, today, we are not using it to replace the salesman. Today, it is complementary to a human selling system. What used to happen is many times, between 2 calls, the outlet will get out of order and they would wait for the salesman to come. It will get out of stock and they will wait for the salesman to come when they place an order.

The second important bit is, because the retailer, orders and carries inventory, which will last until the next visit of the salesman comes in, yes, he would end up carrying more inventory. So now we are talking about and cajoling the retailer that you carry more assortment. And if you run out of stock, you can place an order whenever you feel like.

So we are bringing in more efficiency to the system and bringing in more assortment in the front line which will make a difference to our growth. And this system today is a complementary system and not a substitute.

Percy Panthaki *IIFL*

Understood, Sanjiv. Because my impression was that the outlets which are under direct coverage, they are anyway serviced by your distributor salesmen once or twice a week, depending on the size of the outlet. So anyways, if he is going to get serviced, on an average, every 4 or 5 days, does it really add that much value, that instead of 4 or 5 days, he gets serviced every 1 or 2 days?

Sanjiv Mehta Hindustan Unilever Limited

It does because what we are doing is, we don't even have Shikhar, we are realigning our servicing capability so that we can service an outlet whenever we receive an order. And we are moving from a traditional N+2 or N+3 delivery system to N+1 delivery system. So we are making the chain much more smoother. We are ensuring there is minimal time between out of stock and replenishment. And we are also ensuring that the retailer is incentivized to carry wider assortment, which leads to better growth. Other bit is we now have a seamless system whereby SBI offers credit to a retailer without any paperwork based on the purchases from HUL. That's another big advantage. And these are some capabilities which are going to hold us in big stead as we go forward. Because just think of it, that classically, this will allow us to even improve the direct coverage of the outlets that we have.

Percy Panthaki *IIFL*

Sure. Sure. Got you. And this 15% contribution of Shikhar, would it be higher than 15% in rural or in urban? Or they are more or less equal 15% contribution for either of urban or rural? I don't want the exact number, I just want to know which one is higher.

Sanjiv Mehta Hindustan Unilever Limited.

No. What is happening is Shikhar has been adopted by about 650,000 outlets. And right now, it is more in urban and semi-urban, but progressively going down to the rural areas.

Ritesh Tiwari *Hindustan Unilever Limited*

And just to clarify, Percy, the 15% number that we quoted, that includes all the components where we're able to make digital sales. It includes Shikhar, includes e-commerce, both eB2C, eB2B and our D2C websites. So all 3 components put together, our digital demand capture is now more than 15%.

Percy Panthaki *IIFL*

Okay. Got you. Second question, sir, is on demand. So if I look at it, the pandemic disruption is now almost behind us, barring a third wave. So if I go back to the demand scenario just before the pandemic, if I look at the first 3 quarters of the FY '19-'20 fiscal, demand was very slow at that point of time. And the pandemic on the margin would just have hurt consumers, especially the low-income consumers, if not the mid- and high-income consumers, but the low-income consumers has definitely gotten hit by the pandemic. And even pre pandemic, as I said, the demand was very slow.

So what has really changed there just because of the pandemic -- not just because, but after the pandemic, the demand will really sort of now go even beyond what the growth rates were pre pandemic? I want to understand what are the drivers for the growth.

Sanjiv Mehta Hindustan Unilever Limited

Yes. So that's a very good point, Percy. Because we have to accept that in 2019, before the pandemic, when we were also flagging off that the consumer growths are tapering away, that was also linked to the economic growth of the country slowing down, yes. Then the rural growth picked up, which was helped by various factors, including good harvest; including improvement in MSP, which resulted in more wages and government's more allocation to rural which included MNREGA outlay, direct transfer of money and free food grains, all that contributed to rural bounce back, yes.

Now what are the other factors? One is government's significant more investment in infrastructure. That should play a big role in the economic activities picking up and the growth picking up. At the end of the day, our FMCG growth gets reflected with what happens in the underlying economy and is also a contributor to the economic growth. So it has a nice interdependent relationship with the macro indicators. But we, all of us are hoping that India is not going to languish at 3%-4% growth. With us getting back to the 2019, '20 size of the economy, you're still looking at prediction which indicates that India should be growing at a very robust pace next year, which is a very good sign. That means the total economy is picking up, and that would result in FMCG growth picking up.

Percy Panthaki *IIFL Research*

Sure. Got you, Sanjiv. Just a comment here on the GDP growth. We've seen a 7% real GDP decline in FY '21. FY '22 growth expected is 9%. So that point basis, we have only a 2% growth over a 2-year period in normal. In absence of COVID, over a 2-year period, we would have a 10% real GDP growth. So there is actually hole of 8 percentage points in the economy, which is not what we'll get even in FY '23.

Sanjiv Mehta Hindustan Unilever Limited

That's right. But it is not that if the growth goes away, it automatically fills in. It's not like a water tank, right? That the water has gone away and when the water normalizes, it automatically fills in. You have to have an underlying activity to make it happen, because that consumption was lost forever. Now you're talking about that, yes, we are talking about going back to the same size of the country's GDP. But if we maintain that momentum of 7%-8% growth, then you're talking about its now momentum growth rate coming back. That's what we need to look at.

Operator
The next question is from the line of Alok from Ambit Capital.

Alok Shah ***AMBIT Capital Private Limited***

My first question is on the Beauty & Personal Care portfolio. Sanjiv, I wanted to get your views that do you think there is potentially a need to get 1 more brand which can, say, bridge your gap between Pond's and Simple or Love, Beauty & Planet and that brand can spread across Skin Care, Hair Care and potentially compete also with D2C brand. Your thoughts on that.

Sanjiv Mehta ***Hindustan Unilever Limited***

I see You're basically talking about brand extensions. We look at brand extensions when we believe that the extension can, not only take from the core, but add to the core. A classic example is Dove. Dove will become one of the most priced beauty brand in the country. Even now, it's on a fabulous journey. If you recall, it started with skin cleansing, then it went to hair. In hair, it's done such a remarkable job that it is now one of the biggest brand in hair. And it will become, I would definitely say, one of the largest brands in hair care. And it would become one of the largest brands in beauty.

Today, we are looking at also how do we extend Indulekha. It is such a great ayurvedic property. We have grown from hair oil and have gone to shampoo. And now we are looking at going to other places. Similarly, when we look at, whether it is Simple, which is clean beauty; or whether it is Love Beauty and Planet, we first focus on the few categories or on the core, build the property over there, then we look at it whether the brand has the muscle to extend into other categories or adjacencies. Otherwise, if you do it too soon and too fast, you'll end up diluting it.

Alok Shah ***AMBIT Capital Private Limited***

Got it. So essentially, the reason to ask you also, because consumers may want newness. Maybe Lakmé may have a proposition, but when the consumer upgrades, like, maybe not be their go to brand. So in that situation, how do you sort of tackle that situation?

Sanjiv Mehta ***Hindustan Unilever Limited***
We don't change the proposition of a brand. What our perspective is, first is we straddle the pyramid. If you look at it, all our big categories, whether it is laundry, whether it is skin cleansing, whether it is hair,

whether it is tea, we try to identify what are the benefit segments, whether our brands cover those benefit segments and whether, through our brands, we are able to cover all the price points.

So once you cover the benefit segment and the price points, then you make it into a powerful portfolio. So that's what we look at it from a lens of category. We don't want to win just at a brand level. We want to win at the category level. So when you look at our skin care or face care, we have a fabulous brand in Glow & Lovely. Then we have got a fabulous brand in Pond's. And then there are segments of hand and body, if you look at the whole portfolio of skin care. We also have Vaseline and Dove. And that is how we make a difference when it comes to creating a powerful portfolio and you win as a portfolio. That's what our focus has always been on.

Alok Shah *AMBIT Capital Private Limited*

Got it. Got it. And my second and last question is on your M&A activities. So up until now, whatever M&A activities that you have done has largely been a portfolio which has typically not been within Unilever portfolio or HUL in India, be it Indulekha or GSK portfolio. But if tomorrow HUL decides to acquire one of the D2C companies, so my question is because it's a category in which Unilever is globally present, would you be allowed or would you have to seed those categories organically only?

Sanjiv Mehta *Hindustan Unilever Limited*

See, first is when we look at inorganic growth, we look at it from a lens of strategic fit. And strategic fit, you're absolutely right, whether it was Indulekha or whether it was VWash or whether it was GSK consumer health, we entered into categories where we did not have a play. And sometimes, when you look at it, it's to gain capability.

When we got the Adityaa Milk, it was not about that we weren't in ice cream, because they had some fabulous capabilities in south of India, with low-cost manufacturing. And also we wanted to have access to go to market, because not many stores have multiple freezers. So we wanted a more footprint of freezers. That's why in certain part of India, that we went in for Adityaa Milk acquisition. And sometimes you may also look at it from a lens, how much time will it take you to grow it organically versus what will be the cost of acquiring it inorganically. So that is also the judgment play that comes in when you look at M&A.

Operator

The next question is from the line of Manoj Menon from ICICI Securities.

Manoj Menon *ICICI Securities Limited*

Just 2 questions, 1 on the e-com B2C, the Shikhar or in generic, let's say, the digital interventions which you have done and which you continue to do. Just trying to understand the people side of it, the culture side of it, even the structural side of it, if you could talk a little more in terms of, let's say, how are you structured and how is these different endeavors within the organization. The reporting structures, the right people, the culture part of it. The context I'm trying to understand is for a large company which is doing so many different kinds, so just trying to understand how do you ensure the entrepreneurial nimbleness sort of thing from a construct side of it, the quantitative and qualitative. Yes, that's question #1, Sanjiv.

Sanjiv Mehta *Hindustan Unilever Limited*

Yes. That's a good question, Manoj. When we were sitting with the premium beauty unit, and first is we thought that we have to create a very entrepreneurial unit within a large HUL. And we were struggling with getting answers to the questions that you have now raised. So what we have done is we've carved out a different unit. We have brought in talent from outside who are very digitally savvy. We have pulled in people from within who are very entrepreneurial. And even our remuneration system for them, incentive is very different. So we have, in many ways, liberated them while giving them the benefit of the capabilities of a large HUL. So that's what we have planned to life.

When we started our re-imagining HUL journey, we did not start by any hierarchy, and we did not start by that it has to be part of a certain function. So we had people who are most tech savvy, people who love technology, people who had idea joined the digi council. And we started with a few experiments, which then got into tens of experiments, over 100 experiments. Then we dotted the line, we picked up the big ones and we put the muscle of HUL from both resources perspective, man and money, to make it come alive. And that's how we have developed, say, our Shikhar app. Our Shikhar app today, if you were to go and ask the retailer from the benefit perspective and the use perspective, it would be at the very top of all the apps available in the market. You have to just measure the benefit of Shikhar app. If we were to spin it off as a separate entity, it would become a unicorn overnight.

So what we are trying to do, Manoj, we are trying to create a soul of a small company in a large HUL. Even the recruitment of talent that we are doing, we are recruiting very different people today, so that we are building capabilities and moats for the future.

Manoj Menon *ICICI Securities Limited*

Understood, Sanjiv. But from a structure point of view, let's say, Shikhar would be under the sales, I mean, the customer development team or the D2C would be housed under the personal care, I mean, ultimately reporting into. How does those structures actually up there currently?

Sanjiv Mehta Hindustan Unilever Limited

Today, it's a different independent unit and it might cut across different categories. So what the category head would do is look at it, that this brand, from an architecture point of view, makes sense, but then it would be run completely independently. Similarly, e-commerce, we have set it up as a separate unit. And while multiple brands come into play in the e-commerce unit, the e-commerce capabilities have been developed very separately. And we started investing in e-commerce capabilities much ahead of time.

And we brought in resources from outside, again to augment the people who were there, whom we transferred, who were, again, much more tech savvy. So that's how we have been building it.
One of our big advantage is that we have scale, we have resources, we have capabilities. So what you have to do is find out the sweet spot where you can liberate the people from the negative aspects of a large company which could slow you down but provide them anchors of a big company which could provide the resources which a small company may not have. So that's what we are trying to create.

Manoj Menon *ICICI Securities Limited*

Understood. Sanjiv, the second question, I'm not sure if it's something to be asked in a quarter call or maybe I can do that separately with through Ravi. Look, one thing about now the buzzword is, let's say, the last year, 1.5 years is probably D2C and hygiene. Of course, the second one, thanks to COVID.

I'm pronouncing, these are the newer things, which have kind of, let's say, come up in terms of market creation opportunity. I vividly recall 4 years back possibly to as Ayurveda. I don't really hear much about Ayurveda, I am not talking about HUL , I am talking about general. I'm a firm believer that good management, what you don't do also matters equally or even more important than what you do. So two questions there, Sanjiv, actually. Because in an environment where a lot of these things come, of course, it's obviously your job to kind of differentiate what is the real trend and what is a fad. Just trying to understand on these 3, or maybe feel free to add more, do you think, let's say, Ayurveda, because of the, patanjali, tailwind at that time, where are we on Ayurveda at this point in time at an industry level and maybe at an HUL level? The same thing on the hygiene new normal. I'm not interested in the last year base and kind of -- that's too short term. How much, let's say, penetration increased hygiene would have got in the last year? And what does it mean for the, let's say, my DCS into the medium term? And the third is maybe crystal ball-gazing at this point in time on D2C and a few other trends I myself would have missed

Sanjiv Mehta Hindustan Unilever Limited

So first is, again, a very valid question. And not to worry, it may not fall in classically under the quarterly questions. But if we look at it from a lens, don't look at it ayurveda, look at it naturals. Naturals is a secular trend. It's not going to go away. And if you look at in the premium beauty unit, some of the brands that we are building, whether it is Simple, which is clean beauty, or Love Beauty & Planet, these are all under the naturals platform. We are also looking at how do we extend into Indulekha much wider. Again, this is all focusing on natural. And while a lot of noise was created by Patanjali at that stage and they did give a flip to natural, natural, as a trend, is not going to go away.

Similarly, the heightened awareness of hygiene will not border on obsessiveness it did last year, but it will certainly become a very important behavior point going forward. And when you look at e-commerce, why we believe e-commerce will remain, for the simple reason, if it gives benefit to the consumer from a convenience point of view and an assortment point of view, then it is bound to remain there.

When you look at, not just hygiene, but when you look at it, the consciousness for holistic wellness, it has moved to a new level altogether. People are, today, much more conscious than they were ever about keeping themselves healthy, whether it is physical fitness, whether it is wellness, holistic wellness, mental health. All these things are not going to go away. And that is also the reason why we believe in the long term, for us, this entire play into micronutrients, nutrients, the Horlicks brand is going to remain a very strong feature.

Operator

The next question is from the line of Shirish Pardeshi from Centrum Capital.

Shirish Pardeshi *Centrum Broking Limited*

I have two burning questions. And specifically, what I have observed, like there is incremental focus through the digitization connecting last mile. Similar trends we are also seeing into the retail trade. And as you mentioned that Shikhar is one way to reach the retailers and cut down the lead time. Similarly, the Cash & Carry is also penetrating, the leading Cash & Carry player is also navigating the growth in the market. So what point what I'm trying to drive is that the retailers has also become very savvy because he has a connectivity with the modern trade in nearby area. He's been serviced very frequently by you through Shikhar app and even Cash & Carry. So there is a wrestling in my mind in which I believe that there is a conscious inventory rationalization is happening. I mean you are the biggest company, and maybe you can tell me something more about that trend. But I see that this digital focus is also trying to create some leeway and incrementally giving a better return on investment for the retailer.

Sanjiv Mehta Hindustan Unilever Limited

You are absolutely right. The 2 big constraints for a retailer are space and money. Historically, what used to happen or even today, what happens with most retailers, that they go by the feel and you will see that because they have the space constraint. The number of assortments that they have are much fewer than what they would ideally like to keep. So what technology should allow them to do is, first, very importantly, keep the right kind of assortment. One of the journey we are on is customizing the assortment for each store, not based on what they sell, but what they should sell. And that is how we make a pitch to a retailer. The second is, instead of keeping 20 pieces of 3 variants, they may be able to keep 20 pieces of 7 or 8 variants. And with more frequent fill-up that would happen, they would be able to operate with much smaller inventory. But with a higher assortment, the throughput would go up. The other is credit. A retailer normally borrows from either NBFCs or from the market at a much higher rate. Just think of it, the program that we have with the SBI, which allows us to give them credit at very fine rates, much lower than the market rates, would again become a game changer. So the way I look at it, the GT retailer of the future will become much more technological savvy, there would be much more digitization of GT trade and the key critical pain points of space and money will get helped, to a large extent, by companies like us when we look at helping the retailers.

Shirish Pardeshi ***Centrum Broking Limited***

Sanjiv, completely agree. And having worked in side with the company and the trade, that's my observation. But what I'm trying to see, that there is a risk for a company like us who is full grown in terms of distribution is that inventory rationalization.

Sanjiv Mehta ***Hindustan Unilever Limited***

Inventory rationalization will be, at one point event, yes. And it will not happen overnight across 11 million outlets. It will happen at different points. But importantly, your sustainable growth rate will depend on throughput. So you will need strong brands, you will need better service. And if you are able to augment it with customized assortment and credit, that's what will become a game changer for a retailer.

Shirish Pardeshi ***Centrum Broking Limited***

Okay. Okay. My second and last question, while observing this quarter trend, I always tend to believe that most of the companies have started at advertising. But when I look at your advertising spend, whether you look at percentage to net sales or on a Y-o-Y, the growth rates for advertisement is a little lower. So was it that company is doing a conscious attempt to build the demand side, we are putting more promotions and discounts in the market and putting less money on the advertising?

Sanjiv Mehta Hindustan Unilever Limited

No, what we are trying to do is a better attribution to growth. That's what we have been doing. So we are significantly enhancing our capability of media deployment so that we can get a better bang for the buck and have a more linkage, where the linkage between the money we spend and the growth becomes even more, much more clearer and darker. That is what we have attempted to do. If you look at our advertising spend, even today, it's significantly ahead of our market share and I'm talking about significantly, not a bit, but many percent points ahead of our market share.

Shirish Pardeshi ***Centrum Broking Limited***

My short point here is that if that is the trend, we should build in our thoughts, that the ad spend will remain less than 7%, 8%, 9% and not build 11%.

Sanjiv Mehta Hindustan Unilever Limited

I don't want to put a number to it because we look at various things. We look at competitive spend, we also look very closely at our reach and frequency. And increasingly, we are slicing it by LSM and not doing it over a general population. And then we are also looking at it from a perspective that how much we are spending in the traditional channel, how much we are spending it in non-traditional channels. So we are trying, increasingly, to make a science out of it.

Operator
The next question is from the line of Richard Liu from JM Financial.

Richard Liu ***JM Financial Institutional Securities Limited***

Sanjiv, Ritesh, I wanted to get your thoughts on the dichotomy in your outlook. As far as rural growth is concerned. One month back in the Investor Day deck, that had a slide that talked about distinct resilience in rural momentum post COVID. And now the thought seems to be that rural is slowing. I agree it's Nielsen data, etc. But if we keep this syndicated data aside, can you help us with your perspectives on what you and your sales force are actually seeing in your business on the ground? And how do these differ versus 2, 3 or even 1 month back? Are you really sensing a drop in rural sentiment and demand in any which way? And while on this, can you also elaborate on what would be the lead indicators that you would look for to signal a recovery here on irrespective of what Nielsen might say 1 quarter later.

Sanjiv Mehta Hindustan Unilever Limited

Richard, if we were to look at just our numbers of sales, then we would still believe that the rural growth remains robust, for the September quarter. And that is the reason why, in the investor conference, we were still talking about a very resilient number. When we look at the numbers which have come out from Nielsen, that's when the antenna went up and then we deciphered it. And if we look at a couple of weeks of sales in the rural area, we have seen some element of softening. Now whether that is linked to unseasonal rainfall, whether it is linked to other extraneous factors, it's a bit difficult to put your fingers on the pulse.
And that is the reason we have highlighted this because one of the things that HUL does very well is pick up signals ahead of time. If you remember, even in '17-18, we were the first company to talk about rural slowdown before anyone else did. So I thought that because we were getting into the September quarter call with analysts and investors, it was important to flag it off. But we are also putting a caveat that there are base issues. And let's not jump to a conclusion without observing it for a few more months, that indeed, that has been a case of a slowdown.

Operator
Ladies and gentlemen, that was the last question from audio. Over to you, Mr. A. Ravishankar, for further proceedings.

A.Ravishankar ***Hindustan Unilever Limited***

Okay. I'll skip the web questions because we have mostly answered them or we have a few questions from retail investors. I would request them to reach out to us, the Investor Relations department. Our contact details are on the website.

With that, we now come to the end of the Q&A session. Before we end, let me remind you again that the playback of this event will be available on our website in a short while and you will be able to go back and refer to it. A copy of the results and presentation, if not with you, is already on the website, and you can go back and refer to that as well. With that, we would like to draw this call to a close. Thank you, everyone, for your participation, and have a great evening ahead. Stay safe and stay well. Thank you.

Disclaimer: This transcript has been edited to remove and / or correct any grammatical inaccuracies or inconsistencies of English language that might have occurred inadvertently while speaking